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One issue that most business people leave to their bank is business loan protection and key man insurance. I have one guiding principle in my life that seems to hold good in all situations, buy products and services from a specialist, not the most convenient. So I buy plumbing fittings from a plumbers merchant rather than a DIY superstore, as you get the knowledge as well as the product. Do the same for financial services; banks do cash and loans: they do not specialise in protection advice!

Business Protection & Key Man Insurance

Q. My bank has set up some loan protection and some key man insurance for me and my fellow owner/shareholder, why should I second-guess that with you?

As a cynic, I see this cover as more for the bank's benefit than yours; they are wanting to protect their loan book, so it is highly likely that the sums assured are sufficient to clear your loans and overdraft and insufficient to protect you and your families' lifestyle. As a secondary consideration, banks are almost always tied to one insurance provider, so the premium is unlikely to be the most competitive in the marketplace. Those second-guesses could either save your lifestyle or simple cash.

Q. Should I think about Critical Illness in a business context?

Standard cover from most of the high street banks will extend to life cover on loans and probably not much else. For owner/manager/shareholders a critical illness will seriously inconvenience the business and possibly lead to bankruptcy or liquidation. The stress alone could finish you off! One provider, AEGON, paid out £25Million in claims in 2009, the average age of the claimant was 44 and the average claim was £96,953. No one can assume that they are safe from cancer, (64% of claims), heart attack, (11% of claims), stroke, (8% of claims), leaving 17% of "Other illnesses": (Source AEGON 01/01/2009 – 31/12/2009). I have recent family experience of this and have subjected myself to a colonoscopy, just a month ago.

Q. How likely is a death or critical illness claim?

Again using figures from AEGON, (SIAS paper 2006, Male) within a firm of 10 partners with an average age of 35, there is a 51% chance that one of them will die before the age of 65.

For the same 10 partner firm with an average age of 35 the likelihood of a critical illness is 97% before the age of 65. You could accept the risk and not insure the partners but you are more likely than not to find yourself, and your partners in financial hot water. Hopefully, you will have enough wealth saved outside the business for it not to matter!

Q. What should I do?

Talk to an IFA and ask them to do a business liabilities audit. You are not just interested in your liabilities to the bank; you also need to explore your obligations to your fellow business owners, shareholders and your families. Not all risks can be insured, but identifying them is a major step in the right direction, allowing you to mitigate or eliminate the issue.

We have just launched our booklet, "Financial Planning for Business Owners", so ask us for a copy either by ringing 0116 253 5600 or send an e-mail with your contact details to leicestermercury@bankfield.net.

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